

City and County of San Francisco

Office of the Controller – City Services Auditor

AIRPORT COMMISSION:

**Compliance Audit of
American Eagle Airlines, Inc.**

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June 17, 2008

**CONTROLLER'S OFFICE
CITY SERVICES AUDITOR**

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

The audits unit conducts financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Debbie Gordon, Audit Manager
Edwin De Jesus, Associate Auditor



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

June 17, 2008

San Francisco Airport Commission
P.O. Box 8097
San Francisco International Airport
San Francisco, CA 94128-8097

President and Members:

The Controller's Office, City Services Auditor, presents its report concerning the compliance audit of American Eagle Airlines, Inc. (American Eagle). American Eagle has an airline operating permit from the Airport Commission of the City and County of San Francisco to use the landing facilities at the San Francisco International Airport for its air transportation business.

Reporting Period: July 1, 2004, through June 30, 2007

Landing Fees Paid: \$713,152

Results:

American Eagle reported 5,314 revenue aircraft landings, and paid \$713,152 in landing fees to the Airport. However, it misreported landings for 8 out of 36 months of the audit period, for a net total of seven overreported aircraft landings. As a result, American Eagle overpaid its landing fees by \$949.

American Eagle's response and the Airport's response are attached to this report.

Respectfully submitted,

Robert Tarsia
Deputy Audit Director

cc: Mayor
Board of Supervisors
Civil Grand Jury
Budget Analyst
Public Library

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INTRODUCTION

Audit Authority

The Office of the Controller (Controller) has authority under the San Francisco Administrative Code, Chapter 10, Article 1, Section 10.6-2 to audit, at regular intervals, all leases of city-owned real property where rent of \$100,000 or more a year is to be paid to the City. In addition, the City Charter provides the Controller, City Services Auditor (CSA), with broad authority to conduct audits. We conducted this audit under that authority and pursuant to an audit plan agreed to by the Controller and the Airport.

Background

American Eagle Airlines, Inc. (American Eagle) has an airline operating permit from the Airport Commission (Commission) of the City and County of San Francisco to use the landing facilities at the San Francisco International Airport (SFO) for American Eagle's air transportation business. The permit, which commenced on July 2, 2002, requires American Eagle to submit to the Airport Department (Airport) a monthly report showing American Eagle's actual revenue aircraft landings by aircraft type and other landing data necessary to calculate the landing fees. The Airport charges American Eagle a landing fee based on the maximum landing weight of its revenue aircraft landings at SFO. These landings are those for which American Eagle has received or made a monetary fee or charge. For every 1,000 pounds of aircraft landed, the Commission sets a fee that it may change annually. During our audit period, the Airport's fee per 1,000 pounds was \$3.214 for fiscal year 2004-05, \$3.213 for fiscal year 2005-06, and \$3.336 for fiscal year 2006-07.

Scope and Methodology

The purpose of this audit was to determine if American Eagle complied with the reporting and payment provisions of its operating permit. Our audit period was from July 1, 2004, through June 30, 2007.

To conduct the audit, we examined the applicable terms of American Eagle's permit, and the adequacy of its procedures for recording, summarizing, and reporting revenue aircraft landings. We tested whether American Eagle accurately reported its revenue aircraft landings and the maximum landing weights of its aircraft landed at SFO. We also determined whether American Eagle had any outstanding payments due to the Airport for the audit period.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

American Eagle Made Minor Errors in Reporting Aircraft Landings

From July 1, 2004, through June 30, 2007, American Eagle reported 5,314 revenue aircraft landings and paid \$713,152 in landing fees to the Airport. Exhibit 1 shows American Eagle's total reported revenue aircraft landings and the associated landing fees.

EXHIBIT 1

Number of Reported Landings and Landing Fees Paid July 1, 2004, Through June 30, 2007

Period/Aircraft Type	Landing Weight (in lbs)	# of Landings	Total Landing Weight (in lbs)	Rate per 1,000 lbs	Landing Fees Paid
July 1, 2004, through June 30, 2005					
EMB 140	41,226	973	40,112,898	3.214	\$128,923
EMB 140-1	41,300	960	39,648,000	3.214	127,429
July 1, 2005, through June 30, 2006					
EMB 140-1	41,300	1,751	72,316,300	3.213	232,352
July 1, 2006, through June 30, 2007					
EMB 140-1	41,300	1,245	51,418,500	3.336	171,532
EMB 140-2	41,200	385	15,862,000	3.336	52,916
TOTAL		5,314	219,357,698		\$713,152

* Note: Rounding of amounts may cause a minimal difference in total fees paid.

Source: Airport reports on landing fees and aircraft landings.

However, for 8 out of 36 months in the audit period, American Eagle misreported its aircraft landings on its Monthly Air Traffic Activity Reports (MATARs) used to report aircraft landings to the Airport. Six MATARs showed a total of nine overreported aircraft landings, and two MATARs each showed one underreported aircraft landing, for a net total of seven overreported aircraft landings. We found that American Eagle staff used aircraft landing reports which, according to its managing director, had not been updated to reflect actual landings. American Eagle should have instead used its detailed reports of actual aircraft landings. As a result, American Eagle overpaid its landing fees by \$949.

Recommendation

1. The Airport should require American Eagle to use its monthly detailed report of aircraft landings when preparing the MATARs, to ensure that it reports accurate landing totals to the Airport, and credit American Eagle the \$949 in overpaid landing fees.

ATTACHMENT: AIRPORT'S RESPONSE



San Francisco International Airport

June 3, 2008

Mr. Cesar Sanchez
Accounting Manager
American Eagle
1 Dr. Carlton B. Goodlett Plaza
San Francisco, CA 94102

Mr. Robert Tarsia
Deputy Audit Director
City Hall
1 Dr. Carlton B. Goodlett Plaza
San Francisco, CA 94102

Re: Controller's Audit of American Eagle

Dear Mr. Tarsia:

We have received your report on the audit of American Eagle for the period July 1, 2004 through June 30, 2007 and concur with your audit findings.

In accordance with your recommendation, the Airport will:

- Issue a credit of \$949 for the overpaid landing fees, and
- Require American Eagle to use its monthly detailed report of aircraft landings when preparing the MATARs to ensure accurate reporting of its landings.

We thank you and your staff for your work on this audit.

Very truly yours,

Cesar Sanchez
Accounting Manager

cc: Gary Franzella
Dorothy Schimke
Charles Shea
Ivo Castellano

AIRPORT
COMMISSION
CITY AND COUNTY
OF SAN FRANCISCO
HARRY S. MARKS
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STEVEN JOHNS
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AIRPORT CHIEF OF

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ATTACHMENT: AMERICAN EAGLE'S RESPONSE



May 28, 2008

Robert Tarsia
Deputy Director of Audits

American Eagle has corrected the monthly landing report distribution to include our representative at SFO who prepares the Monthly Air Traffic Activity Reports (MATARs) for San Francisco International Airport. This should improve that accuracy of the reported landings.

Thanks for bringing this to our attention.

Sincerely,



Sean P. Goodwin
Regional Managing Director

